July 2005

Special Edition of Topics & Report

LEGISLATIVE UPDATE

Teachers' Retirement System of the State of Illinois

A quick message from the director

There are times when you deserve expedited information from TRS. The enactment of legislation that extends the ERO and makes other significant changes in TRS funding and benefits is one of those occasions.

This spring's budgetary environment was the most challenging in modern memory. While the funding cuts and benefit changes disappoint everyone associated with TRS, they are far less drastic than proposals made earlier this spring. Extraordinary efforts by TRS and the organizations representing the entire education community preserved ERO with modifications, prevented changes in existing 3 percent annual inflation protection, and moderated other proposals to change pension benefits.

We worked swiftly to compile an accurate and comprehensive summary of the changes because keeping you "in the know" is a guiding principle at TRS. While we immediately updated our Web site, many members prefer to receive printed information by mail. We trust the information will be helpful as you make career or retirement plans.

All of us at TRS appreciate your steady support and wish you a wonderful summer.

Overview

Governor signs Public Act 94-0004 into law

Public Act 94-0004, formerly called Senate Bill 27, became law on June 1, 2005 and impacts many active and inactive TRS members. The law has no immediate impact on annuitants. The legislation addresses ERO and benefit changes that have been the focus of attention over the past year. In addition, funding for TRS will be cut significantly. This reduction will have a negative impact on TRS's funded status and will result in increased contributions to TRS in the future. This special update details Public Act 94-0004 changes and gives a brief description of other legislation that passed during the spring session of the General Assembly.

ERO extended with modifications

The Early Retirement Option (ERO) was renewed with modifications that will allow the program to continue at least through 2012. ERO is a helpful way to avoid the substantial reduction in pension benefits if a member retires prior to age 60 with less than 35 years of creditable service. Without the legislation, ERO would have expired on June 30, 2005.

As modified by the new law, higher payments will be made by members and their employers to use ERO. In addition, the member contribution to TRS will increase from 9.0 percent to 9.4 percent. The increased amount is refundable if the member does not retire using ERO.

The extension includes a "pipeline" provision for members who notified their employer on or before June 1, 2005 of their intention to retire under the terms of a contract or collective bargaining agreement. These members have until July 1, 2007 to retire using the pipeline provision.

see page 3 **Modified ERO** and **Pipeline ERO**

New employer contributions and other benefit changes

End-of-career salary increases exceeding 6 percent

Your pension is normally based on an average of the four highest consecutive years in the last 10 years of service. The salary used in this calculation may not increase by more than 20 percent over the previous year's salary with the same employer.

While the 20 percent limitation does not change, your employer will be required to pay TRS for the actuarial value of any salary increase over 6 percent that is used in the final average salary calculation and that increases your pension benefit. The amount will be determined when you retire and your employer will be required to pay a lump sum to TRS.

Contracts and collective bargaining agreements in effect prior to June 1, 2005 that provide for pay increases over 6 percent at retirement are exempt from the provisions contained in the act. When these contracts are amended, extended, renewed, or expire, your employer will become responsible for the required payments to TRS.

Sick leave granted near the end of a career

Employers will be responsible for the cost of sick leave granted in excess of the normal allotment that is used to secure TRS service credit. The new law exempts collective bargaining agreements and contracts as discussed in the paragraph above.

Actuarial benefit eliminated for new hires

The actuarial benefit, also known as the money purchase benefit, is eliminated for teachers who become members on or after July 1, 2005. Members who joined before this date will continue to receive the larger of either the 2.2 formula calculation or the actuarial calculation at the time of retirement. For most TRS members, the 2.2 formula calculation results in a larger benefit than the actuarial calculation. The actuarial calculation usually benefits members with exceptionally long careers or large periods of inactive status.

New benefit increases must be funded

Public Act 94-0004 sets tough new standards for the enactment of benefit improvements in the future. All future benefit changes will sunset after five years and must meet the following requirements:

1) New benefits must be fully funded by an identified funding source.
2) New benefits must be certified as fully funded by the Public Pension Division of the Department of Financial and Professional Regulation. Otherwise, they will expire at the end of the fiscal year unless corrective action is enacted into law.
3) New benefits without sufficient funding will be deemed null and void.
4) New benefits expire after five years if not re-authorized by law.
5) New benefits pertain only to members who "apply and qualify."

State cuts TRS appropriations

A two-year funding reduction of approximately 50 percent in state contributions will result in a total reduction of over $1 billion for TRS. The fiscal year 2006 state contribution will be $534.6 million, $523.9 million less than the originally certified state contribution of $1,058.5 million. In fiscal year 2007, the state contribution will be $738.0 million, or $497.6 million less than the projected contribution of $1,235.6 million.

The reduced contribution amount for fiscal year 2007 will be the starting point for calculating state contributions in 2008 through 2010, and this makes the 2008 and 2009 contributions lower than they would have been without the cuts. To make up for the funding reductions taken over the next several years, future state contributions will be higher than they would have been without the cuts. However, the overall goal of 90 percent funding in the year 2045 is unchanged.

Benefit payments not cut

Despite the funding reductions, TRS will pay benefits on time without any reduction or loss of future 3 percent annual increases. The Illinois State Constitution continues to guarantee all benefits provided by the Illinois Pension Code for current members and annuitants.

Pipeline ERO eligibility

Members who submitted a written notification to their employers on or before June 1, 2005, are covered by the expired ERO provisions, even if they don't retire until July 1, 2007. The provision is known as ***Pipeline ERO*** because the retirements were "in the pipeline."

The law specifies that members who have met the following criteria are in the "pipeline" to retire using the expired Early Retirement Option (ERO) law:

- On or before June 1, 2005, members notified their employers in writing of their intention to retire under the terms of their contract or collective bargaining agreement.
- Members have an effective date of retirement on or after July 1, 2005, and on or before July 1, 2007.

Members must be certified to retire under the Pipeline ERO

On June 14, superintendents of every school district were mailed a form to certify members who will retire under the Pipeline ERO. If you meet the requirements listed above, your superintendent will include your name and anticipated retirement date on the form.

TRS will mail an affidavit to each member identified by their employer as eligible for the Pipeline ERO. The affidavit must be signed by the member and the school district's superintendent certifying that the member gave written notice of intent to retire to the employer on or before June 1, 2005. Receipt of this signed affidavit will be required in order to retire under the Pipeline ERO. If you do not receive an affidavit from TRS by August 15, 2005, please contact your district personnel office. We cannot send an affidavit unless your employer reports you as eligible for the Pipeline ERO.

Modified ERO program takes effect July 1, 2005

The new Modified ERO program requires a member contribution of 11.5 percent for each year under the age of 60 or number of years under 35 years of service, whichever is less. The employer (school district) contribution shall be 23.5 percent for each year the member is under the age of 60. The contribution waiver for employers and members with 34 years of service does not apply to the Modified ERO. School districts can limit the program to 10 percent of those members who are eligible for the program.

In addition, the contribution rate for all active members is increased by 0.4 percent. This will make member contributions for all active TRS members 9.4 percent of their salary. The additional ERO contribution will be refunded to the member if the ERO is not used at the time of retirement or if the program is terminated.

We refer to the legislative changes that extended ERO as ***Modified ERO***. These provisions apply to members who will retire after June 30, 2005, and who do not qualify for Pipeline ERO.

In another change from the current law, employers may limit the number of ERO retirements to not less than 10 percent of the eligible employees. Previously, the statutory limit was 30 percent. If a limit is adopted, eligibility for the ERO will be based on employment seniority.

Extension of the modified ERO program will be contingent upon an actuarial analysis by TRS in 2012. The analysis will be sent to the Commission on Government Financing and Accountability (COGFA) for their review and recommendation on the rates that are needed to keep the program revenue neutral to the State of Illinois. The General Assembly must then enact the necessary changes in order for the program to be extended. If the General Assembly does not act, then the program will cease to exist at the end of the fiscal year in which COGFA made the recommendation.

Teachers' Retirement System of the State of Illinois
Retirement Security for Illinois Educators
2815 West Washington, P.O. Box 19253
Springfield, IL 62794-9253
Member Services: (800) 877-7896
Forms Order Line: (800) 207-6948
Web site: trs.illinois.gov

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Advisory Commission on Pension Benefits

Public Act 94-0004 establishes a 15-member Advisory Commission on Pension Benefits to make recommendations concerning changing the age and service requirements, automatic annual increases in benefits, employee contribution rates, and other pension-related issues.

Eight members will be appointed by the Governor, of which four shall represent statewide labor organizations with two representing teacher unions. Each leader of the General Assembly will appoint one member. The directors of the Teachers' Retirement System, State Employees' Retirement System, and the State Universities Retirement System will serve as ex-officio members of the Commission.

The commission is to report its findings and recommendations to the Governor and the General Assembly by November 1, 2005.

Legislation awaiting gubernatorial action

The following bills were passed by the General Assembly and were awaiting action by the Governor at press time. The bills may be signed into law, vetoed, or amendatorily vetoed. Visit trs.illinois.gov for later updates.

Second search allowed for return to teaching in subject shortage areas

House Bill 741 allows a school district to conduct a search for a teacher to fill a subject shortage area in either the fall or spring term. Under existing law, the school district must conduct a search for a period of 90 days during the six months prior to the beginning of the school term in order to be able to hire a retired teacher in a subject shortage area. The legislation gives a school district the ability to conduct a second search during the year.

Part-time teaching approved for members receiving disability benefits

Senate Bill 1660 allows individuals who have received TRS disability benefits for one year to return to teaching if their medical condition improves, allowing part-time work. The combined income from the disability benefit and the part-time teaching cannot exceed the salary rate upon which the benefit was based. Individuals may continue to teach under this arrangement provided their disability precludes full-time employment.

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